

# Kuwait joins the Inclusive Framework on BEPS and participates in the Two-Pillar Solution

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On 15 November 2023, the Organization for Economic Co-operation and Development (OECD) [announced](#) that Kuwait has joined the Inclusive Framework on Base Erosion and Profit Shifting (IF), which brings the total number of IF members to 145 as of the date of this document. By joining the IF, Kuwait commits to implementing certain tax-related measures recommended to address tax avoidance, improve tax transparency, and enhance dispute resolution. As part of this step, Kuwait will participate in the “Two Pillar Solution” to address the tax challenges arising from the digital economy.

## BACKGROUND

Base erosion and profit shifting (known as BEPS) refers to tax plans that exploit mismatches and loopholes in tax rules to shift profits to no or low tax jurisdictions where there are little economic activities or substance. In response to calls from the G20, the OECD BEPS Project delivered 15 Actions in 2015 that should be implemented into domestic and international tax rules to achieve the following objectives:

- a) Reinforce the coherence of corporate tax at the international level;
- b) Realign taxation and economic substance; and
- c) Enhance tax transparency and certainty.

In 2016, the OECD prioritized four out of the 15 BEPS Actions to be implemented by IF members in the short term. These four priority actions are known as the “BEPS minimum standards”. IF members are committed to implementing the remaining 11 Actions in the medium to long term.



## **BEPS Minimum Standards**

By joining the IF, Kuwait is committed to implement the BEPS package of the 15 Actions. In the short term, Kuwait is required to implement the minimum standards and be subject to peer reviews against each of the standards to ensure accurate and timely implementation:

- Countering harmful tax practices, taking into account transparency and substance (Action 5);
- Prevention of tax treaty abuse (Action 6);
- Country-by-country reporting (Action 13); and
- Improving the effectiveness of dispute resolution (Action 14).

## **MLI Status**

The multilateral convention to implement tax treaty-related measures to prevent BEPS (MLI) has been signed by over 100 countries. Kuwait signed the MLI in 2017 but has not yet ratified it. The MLI helps a country meet some of the minimum standards. It modifies existing tax treaties by introducing certain measures that aim to counter treaty abuse and improve the dispute resolution mechanism. The MLI is expected to modify 45 of Kuwait's existing tax treaties (Kuwait's reservations and notifications can be found [here](#)). Although the MLI (Action 15) is not part of the minimum standards, it is used by most IF members to implement Action 6 on treaty abuse.

## **The Two Pillar Solution**

As [announced](#) by the OECD, Kuwait commits to the adoption of Two-Pillar Solution. The Pillar One rules are intended to ensure that a portion of a group's revenues are taxed in the jurisdiction where goods or services are used or consumed. The rules will only apply to groups with worldwide revenues in excess of EUR 20 billion. The Pillar Two rules are designed to ensure that large multinational enterprises pay a minimum level of tax on the income arising in each jurisdiction in which they operate. Kuwait is currently studying policy options for the introduction of Pillar Two and plans to introduce a domestic Business Profit Tax of 15% on all legal entities operating in the country, with possible exemptions for small businesses.

## **BDO Comments**

Participation in the IF is a good step forward for Kuwait to join the international fight against tax avoidance and to improve tax transparency. It is expected that several legislative changes will be introduced in the near future to help Kuwait meet the minimum standards, and to adopt Pillar Two. Entities doing business in Kuwait should begin to assess the impact of the tax and reporting changes ahead and put a plan in place to be ready for the expected increased level of compliance.

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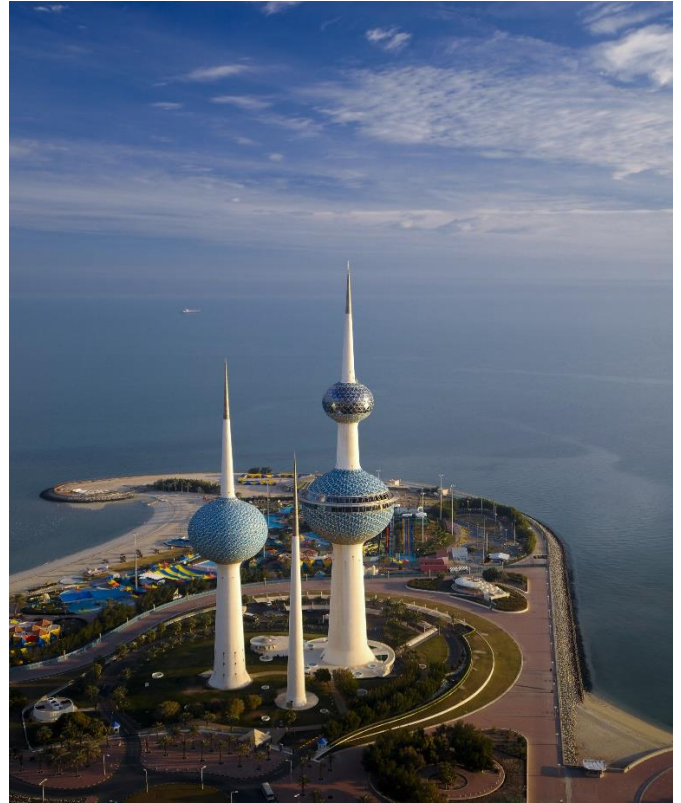
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